

Message Text

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C O N F I D E N T I A L JAKARTA 11451

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FOR ASSISTANT SECRETARY HABIB

EO 11652: GDS

TAGS: ENRG ID

SUBJECT: OIL PRICES AND AID TO INDONESIA

REFS: A. STATE 217382; B. JAKARTA 11366; C. JAKARTA 11444

1. REFERENCES B AND C GIVE SUBSTANCE OF INDONESIAN RESPONSES TO DEMARCHE ON OIL PRICES REQUESTED IN REF A. AS YOU WILL NOTE, WE RECEIVED LITTLE ENCOURAGEMENT THAT INDONESIAN WILL OPPOSE AN OPEC OIL PRICE INCREASE.

2. WE HAVE HAD CLEARLY IN MIND, IN MAKING THESE DEMARCHES, POSSIBLE IMPACT OF ANY OPEC PRICE INCREASE ON CONGRESSIONAL ATTITUDES TOWARD AID AND TRADE CONCESSIONS WITH INDONESIA. WE HAVE MADE OUR CONCERNS KNOWN TO INDONESIANS, BEING CAREFUL TO ASSURE THEM THAT THIS IS STATEMENT OF FACT AND NOT DIPLOMATIC PRESSURE.

3. THERE IS, NEVERTHELESS, LIKELIHOOD OF OPEC PRICE INCREASE. WE APPRECIATE THAT REACTION COULD BE STRONG IN WASHINGTON AND COULD PLACE IN JEOPARDY WHAT WE ARE TRYING TO DO WITH INDONESIA. WE CLEARLY UNDERSTAND COUNTER ARGUMENTS WILL BE DIFFICULT IN FACE OF FEELINGS AT HOME BUT SUG-
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GEST THAT THERE ARE VALID COUNTER ARGUMENTS WHICH MAY

BE USEFUL TO YOU IN MEETING THIS ANTICIPATED PROBLEM.

4. WE UNDERSTAND ALSO THAT PROBLEM IS COMPLICATED BY MAGNITUDE OF INDONESIAN RETURNS FROM OIL EVEN THOUGH INDONESIA IS RELATIVELY SMALL PRODUCER.

5. IN RESPONSE WE WOULD CITE FIRST OF ALL BASIC ARGUMENTS OF INDONESIA'S SIZE, IMPORTANCE IN SOUTHEAST ASIA, AND ITS SERIOUS UNDERDEVELOPMENT. IN ADDITION, INDONESIA HAS BEEN FINANCIALLY RESPONSIBLE AND OUR BILATERAL AND MULTILATERAL (IBRD, ADB, UNDP, ETC.) CONCESSIONAL HELP ASSISTS IN KEEPING DEBT POSITION MANAGEABLE AND PREVENTING INFLATION AND OTHER DESTABILIZING ECONOMIC FACTORS OF OTHER YEARS.

6. SPECIFICALLY IN ENERGY CATEGORY, INDONESIA DID NOT PARTICIPATE IN OIL EMBARGO, RAISED PRICES MORE SLOWLY THAN OTHERS, AND EVEN TODAY HAS LOWEST PER BARREL TAKE OF ANY OPEC MEMBER. NO POLITICAL LEADERSHIP IN COUNTRY SUCH AS INDONESIA COULD BE MUCH MORE RESTRAINED IN EXPLOITATION DEMAND FOR ITS MAJOR NATURAL RESOURCE GIVEN WORLDWIDE PRICE LEVELS.

7. INDONESIA IS BECOMING INCREASINGLY IMPORTANT SUPPLIER TO U.S. WEST COAST POWER COMPANIES, TO WHOM STABILITY OF INDONESIAN SUPPLY IS IMPORTANT.

8. FINALLY, THERE IS EVERY INDICATION THAT WHATEVER OPEC DOES, ANY INDONESIAN INCREASE WILL BE MARKEDLY LESS THAN OPEC INCREASE. WE WOULD HOPE, THEREFORE, THAT AT MINIMUM WE COULD MEET PRESSURES ON INDONESIAN PROGRAMS BY URGING THAT DETERMINATION BE DELAYED AT LEAST UNTIL INDONESIA HAS TAKEN ITS OWN ACTION AND WE HAVE HAD OPPORTUNITY TO EVALUATE THAT ACTION.

9. WE ARE NOT LIKELY TO INFLUENCE INDONESIAN POLICIES ON OIL PRICES BY MANIPULATING OUR TRADE AND AID POLICIES. LINKAGE OF SUCH POLICIES TO OPEC ACTION COULD ONLY DAMAGE OUR INTERESTS HERE OUT OF ANY PROPORTION TO WHATEVER ADVANTAGES SUCH ACTION MIGHT HAVE.
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